

Auditing Procedures Report

Instructions and MuniCodes

*=Required Fields

Reset Form

Issued under Public Act 2 of 1968, as amended. (V1.05)

| | | | |
|---|--|---------------------------|--------------------|
| Unit Name* Sebewaing Harbor Commission | County* HURON | Type* AUTHORITY | MuniCode* 32-7-516 |
| Opinion Date-Use Calendar* Jul 21, 2008 | Audit Submitted-Use Calendar* Aug 25, 2008 | Fiscal Year End Month* 03 | Fiscal Year* 2008 |

If a local unit of government (authorities & commissions included) is operating within the boundaries of the audited entity and is NOT included in this or any other audit report, nor do they obtain a stand-alone audit, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No."

| | |
|---------------------------------------|--|
| <input checked="" type="checkbox"/> ? | 1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements? |
| <input checked="" type="checkbox"/> ? | 2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets? |
| <input checked="" type="checkbox"/> ? | 3. Were the local unit's actual expenditures within the amounts authorized in the budget? |
| <input checked="" type="checkbox"/> ? | 4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury? |
| <input checked="" type="checkbox"/> ? | 5. Did the local unit adopt a budget for all required funds? |
| <input checked="" type="checkbox"/> ? | 6. Was a public hearing on the budget held in accordance with State statute? |
| <input checked="" type="checkbox"/> ? | 7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division? |
| <input checked="" type="checkbox"/> ? | 8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act? |
| <input checked="" type="checkbox"/> ? | 9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy? |
| <input checked="" type="checkbox"/> ? | 10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin.) |
| <input checked="" type="checkbox"/> ? | 11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.) |
| <input checked="" type="checkbox"/> ? | 12. Is the local unit free of repeated reported deficiencies from previous years? |
| <input checked="" type="checkbox"/> ? | 13. Is the audit opinion unqualified? 14. If not, what type of opinion is it? NA |
| <input checked="" type="checkbox"/> ? | 15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)? |
| <input checked="" type="checkbox"/> ? | 16. Has the board or council approved all disbursements prior to payment as required by charter or statute? |
| <input checked="" type="checkbox"/> ? | 17. To your knowledge, were the bank reconciliations that were reviewed performed timely? |
| <input checked="" type="checkbox"/> ? | 18. Are there reported deficiencies? <input checked="" type="checkbox"/> 19. If so, was it attached to the audit report? |

| | |
|----------------------------|---------------------------------------|
| General Fund Revenue: | <input type="checkbox"/> \$ 23,352.00 |
| General Fund Expenditure: | <input type="checkbox"/> \$ 33,892.00 |
| Major Fund Deficit Amount: | \$ 0.00 |

| | |
|--|---------------------------------------|
| General Fund Balance: | <input type="checkbox"/> \$ 43,416.00 |
| Governmental Activities Long-Term Debt (see instructions): | <input type="checkbox"/> |

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (reported deviations).

| | | | | |
|---|--|--------------------------------------|-------------------|------------------------------|
| CPA (First Name)* Jo Ann | Last Name* Lakie | Ten Digit License Number* 1101017493 | | |
| CPA Street Address* 41 East Main Street | City* Sebewaing | State* MI | Zip Code* 48759 | Telephone* +1 (989) 883-3122 |
| CPA Firm Name* Nietzke & Faupel P.C. | Unit's Street Address* 41 East Main Street | Unit's City* Sebewaing | Unit's Zip* 48759 | |

**SEBEWAING HARBOR COMMISSION
SEBEWAING, MICHIGAN**

**FINANCIAL REPORT
MARCH 31, 2008 and 2007**

3275162008

SEBEWAING HARBOR COMMISSION

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REPORT OF INDEPENDENT AUDITORS

To the Honorable Board of Commissioners
Sebewaing Harbor Commission
Sebewaing, Michigan 48759

We have audited the accompanying financial statements of the business type activities of the Sebewaing Harbor Commission, Sebewaing, Michigan as of and for the year ended March 31, 2008 and 2007, which comprise the Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Sebewaing Harbor Commission, Sebewaing, Michigan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business type activities of the Sebewaing Harbor Commission, Sebewaing, Michigan as of March 31, 2008 and 2007, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis as noted in the table of contents is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.


NIETZKE & FAUPEL, P.C.
SEBEWAING, MICHIGAN

July 21, 2008

SEBEWAING HARBOR COMMISSION MANAGEMENT'S DISCUSSION AND ANALYSIS

As the management of the Sebewaing Harbor Commission, we offer readers this narrative overview and analysis of the financial statements of the Sebewaing Harbor Commission for the year ended March 31, 2008. Please read it in conjunction with the Harbor's financial statements.

FINANCIAL HIGHLIGHTS

The assets of the Sebewaing Harbor Commission exceeded its liabilities as of March 31, 2008 by \$135,555 (net assets) compared to \$136,095 as of March 31, 2007. This represents a decrease of \$540 for the fiscal year.

The majority of the decrease in net assets can be attributed to the lack of boat slip rentals due to shallow water conditions in the marina and adjoining river. Also, capital contributions decreased by \$4,000 from March 31, 2007.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Sebewaing Harbor Commission's basic financial statements. The Harbor is a special-purpose government engaged only in business type activities.

The basic financial statements report information about the Harbor using full accrual accounting methods as utilized by similar business activities in the private sector. The financial statements include a statement of net assets, a statement of revenues, expenses, and changes in net assets and a statement of cash flows.

The statement of net assets presents information on all of the Harbor's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the Harbor is improving or deteriorating.

The statement of revenues, expenses, and changes in net assets presents information showing how the Harbor's net assets changed during the year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

The statement of cash flows presents changes in cash and cash equivalents from operational, financing, and investing activities. This statement presents cash receipt and disbursement information without consideration of the earnings event, when obligations arise, or depreciation of capital assets.

The basic financial statements can be found on pages 1-4 of this report.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the financial

SEBEWAING HARBOR COMMISSION MANAGEMENT'S DISCUSSION AND ANALYSIS

statements can be found on pages 5-7 of this report. You should read the notes before making assumptions or drawing conclusions about the Harbor's financial condition.

The following table presents the condensed statement of net assets as of March 31, 2008 and 2007:

| | March 31 <u>2008</u> | March 31 <u>2007</u> |
|------------------------------|-------------------------|-------------------------|
| Current assets | \$ 6,301 | \$ 2,338 |
| Capital assets | 103,340 | 103,340 |
| Other assets | <u>57,432</u> | <u>61,849</u> |
| Total assets | <u>167,073</u> | <u>167,526</u> |
| Liabilities | <u>31,518</u> | <u>31,431</u> |
| Net assets | | |
| Investment in capital assets | 103,340 | 103,340 |
| Unrestricted | <u>32,216</u> | <u>32,756</u> |
| Total net assets | <u>\$135,555</u> | <u>\$136,095</u> |

The assets of the Sebewaing Harbor Commission exceeded its liabilities as of March 31, 2008 by \$135,555. This represents a decrease of \$540 or 0.4% for the fiscal year.

As of March 31, 2008, the largest portion of the Harbor's net assets reflects its investment in capital assets (\$103,340) (land on which the marina is located) less any related debt used to acquire those assets that is still outstanding. These assets are not available for future spending. At March 31, 2008, there was no debt related to any of the capital assets.

On October 21, 2003, the Harbor Commission purchased the right to operate the marina from the private operator through the assignment of the operating lease with the Michigan Department of Natural Resources. The purchase of the assignment of the operating lease was for \$75,100. As a result, the fiscal year 2004-2005 was the first year that the Sebewaing Harbor Commission operated the marina. The lease is being amortized over 25 years.

The following table shows condensed revenue and expense data for the years ended March 31, 2008 and 2007:

| | March 31 <u>2008</u> | March 31 <u>2007</u> |
|-------------------------------|-------------------------|-------------------------|
| Operating revenue | \$ 23,352 | \$ 22,639 |
| Operating expenses | <u>33,892</u> | <u>39,963</u> |
| Operating loss | (10,540) | (17,325) |
| Capital contributions | <u>10,000</u> | <u>14,000</u> |
| Change in net assets | (540) | (3,325) |
| Net assets, beginning of year | <u>136,095</u> | <u>139,420</u> |
| Net assets, end of year | <u>\$135,555</u> | <u>\$136,095</u> |

SEBEWAING HARBOR COMMISSION MANAGEMENT'S DISCUSSION AND ANALYSIS

The Harbor Commission generates the majority of its revenue from fees from the boat launch and the rental of boat slips in the marina. For the year ended March 31, 2008, the revenue from these fees amounted to \$19,249 compared to \$18,056 for the year ended March 31, 2007. The Harbor Commission also generates revenue from the sale of marine gasoline and merchandise. The sales of these items amounted to \$2,968 for the fiscal year ended March 31, 2008 compared to \$3,211 for fiscal year 2007.

The Harbor's net asset decrease of \$(540) is due primarily to the loss from operations during the fiscal year. The decrease for the fiscal year 2007 was \$(3,325).

CAPITAL AND DEBT ADMINISTRATION

Capital assets. The Sebewaing Harbor Commission's capital assets as of March 31, 2008 were \$103,340. This is the cost of the land on which the marina is located. The construction costs of the marina were financed and are owned by the Michigan Department of Natural Resources.

Long-term debt. The only debt that the Harbor Commission has outstanding as of March 31, 2008 is an amount due to the Village of Sebewaing in the amount of \$31,210. This amount represents monies that the Village has advanced to the Harbor Commission for operations and the purchase of the land.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

During this past fiscal year, the Harbor Commission is working with the ACOE on dredging the Sebewaing River. This project will be complete before the end of the year.

Seasonal boat slip rental increased this year; also the boating activity increased resulting in more daily launches and yearly passes. The operating money from the village and township was reduced in half this year due to the fact that the Harbor Commission increased fees, lowered dock rates and dredged the low spots in the channel which resulted in an increase in the usage of the Marina.

REPORTS FOR INFORMATION

This financial report is designed to provide a general overview of the Sebewaing Harbor Commission's finances. Questions concerning this report or requests for additional information should be addressed to the Sebewaing Township, P.O. Box 687, Sebewaing, Michigan 48759.

BASIC FINANCIAL STATEMENTS

SEBEWAING HARBOR COMMISSION

STATEMENTS OF NET ASSETS

| | MARCH 31, | |
|------------------------------|-------------------|-------------------|
| | <u>2008</u> | <u>2007</u> |
| <u>ASSETS</u> | | |
| CURRENT ASSETS: | | |
| Cash | \$ 6,301 | \$ 1,362 |
| Due from Sebewaing Township | | 975 |
| TOTAL CURRENT ASSETS | <u>6,301</u> | <u>2,338</u> |
| CAPITAL ASSETS: | | |
| Land | <u>103,340</u> | <u>103,340</u> |
| OTHER ASSETS: | | |
| Marina lease | 75,100 | 75,100 |
| Accumulated amortization | <u>(17,668)</u> | <u>(13,251)</u> |
| TOTAL OTHER ASSETS | <u>57,432</u> | <u>61,849</u> |
| TOTAL ASSETS | <u>167,073</u> | <u>167,526</u> |
| LIABILITIES: | | |
| Accounts payable | 87 | |
| Due to Village of Sebewaing | 31,210 | 31,210 |
| Deferred Revenue | <u>221</u> | <u>221</u> |
| TOTAL LIABILITIES | <u>31,518</u> | <u>31,431</u> |
| NET ASSETS: | | |
| Investment in capital assets | 103,340 | 103,340 |
| Unrestricted | <u>32,216</u> | <u>32,756</u> |
| TOTAL NET ASSETS | <u>\$ 135,555</u> | <u>\$ 136,095</u> |

The accompanying notes are an integral part of the financial statements.

SEBEWAING HARBOR COMMISSION

STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS

| | YEARS ENDED MARCH 31, | |
|---------------------------------|--------------------------|-------------------|
| | <u>2008</u> | <u>2007</u> |
| OPERATING REVENUE: | | |
| Seasonal launch permits | \$ 4,873 | \$ 3,744 |
| Transient boat launches | 9,385 | 8,466 |
| Boat slip rentals | 4,991 | 5,846 |
| Gas sales | 2,324 | 1,008 |
| Store sales | 644 | 2,203 |
| Donations | 1,134 | 1,373 |
| TOTAL OPERATING REVENUE | <u>23,352</u> | <u>22,639</u> |
| OPERATING EXPENSES: | | |
| Wages | 8,249 | 13,273 |
| Payroll taxes | 926 | 1,533 |
| Supplies | 723 | 2,041 |
| Utilities | 2,344 | 5,219 |
| Insurance | 7,175 | 7,253 |
| Repairs and maintenance | 2,895 | 2,319 |
| Spraying services | 2,120 | |
| Gasoline | 2,610 | 1,462 |
| Audit fee | 1,400 | 1,300 |
| Miscellaneous | 1,031 | 1,145 |
| Amortization | 4,417 | 4,417 |
| TOTAL OPERATING EXPENSES | <u>33,892</u> | <u>39,963</u> |
| OPERATING (LOSS) | <u>(10,540)</u> | <u>(17,325)</u> |
| CAPITAL CONTRIBUTIONS | 10,000 | 14,000 |
| CHANGE IN NET ASSETS | <u>(540)</u> | <u>(3,325)</u> |
| NET ASSETS - APRIL 1 | 136,095 | 139,420 |
| NET ASSETS - MARCH 31 | <u>\$ 135,555</u> | <u>\$ 136,095</u> |

The accompanying notes are an integral
part of the financial statements.

SEBEWAING HARBOR COMMISSION

STATEMENTS OF CASH FLOWS

| | YEARS ENDED MARCH 31, | |
|--|--------------------------|--------------------|
| | <u>2008</u> | <u>2007</u> |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Cash received from customers | \$ 23,352 | \$ 22,639 |
| Cash payments to suppliers of goods and services | (19,239) | (20,740) |
| Cash payments to employees | (8,249) | (13,273) |
| Cash payments for fringe benefits | (926) | (1,533) |
| Net cash used by operating activities | <u>(5,062)</u> | <u>(12,908)</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES: | | |
| Proceeds from joint owners | 10,000 | 14,000 |
| NET INCREASE IN CASH | <u>4,938</u> | <u>1,092</u> |
| CASH - BEGINNING OF THE YEAR | 1,362 | 270 |
| CASH - END OF THE YEAR | <u>\$ 6,301</u> | <u>\$ 1,362</u> |
| Reconciliation of operating (loss) to net cash flows from operating activities: | | |
| Operating (loss) | \$ (10,540) | \$ (17,325) |
| Add amortization expense | 4,417 | 4,417 |
| (Increase) Decrease in current assets: | | |
| Due from Sebewaing township | 974 | |
| Increase (Decrease) in current liabilities: | | |
| Accounts payable | 87 | |
| Net cash used by operating activities | <u>\$ (5,062)</u> | <u>\$ (12,908)</u> |

The accompanying notes are an integral part of the financial statements.

SEBEWAING HARBOR COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The financial statements of the Sebewaing Harbor Commission have been prepared in conformity with accounting principles generally accepted in the United States of America, as applied to enterprise funds of governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting principles and policies are described below.

Financial Reporting Model:

The Board has implemented the provisions of GASB Statement 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

Reporting Entity:

The financial statements of the Sebewaing Harbor Commission consists only of the funds of the marina. The Sebewaing Harbor Commission has no oversight responsibility for any other governmental entity since no other entities are considered to be controlled by or dependent on the Sebewaing Harbor Commission. Control or dependence is determined on the basis of accountability, budget adoption, taxing authority, funding and appointment of the respective governing board.

The Sebewaing Harbor Commission was formed as a joint venture between the Village of Sebewaing and Sebewaing Township for the purpose of planning, acquiring, constructing and operating a community harbor and marina to provide recreational services to the residents of the Village and Township along with the general public. Each governing body appointed three members to create a six member Board of Commissioners. Also, each governing body is equally responsible to provide financial funding to the Harbor Commission until the Commission is self-sufficient. Based on this financial and oversight responsibility being shared equally by the Village of Sebewaing and Sebewaing Township, the Sebewaing Harbor Commission is being treated as a joint venture of the two governing bodies and a separate governmental entity.

During the land acquisition phase, the Village of Sebewaing advanced funds to the Harbor Commission that was used for the purchase of land at the proposed site of the marina. The proceeds of the state grants and Sebewaing Township's share of the local matching funds were used to reimburse the Village for part of the funds advanced. As of March 31, 2008, the amount due to the Village of Sebewaing from the Harbor Commission amounted to \$31,210.

Measurement Focus, Basis of Accounting and Basis of Presentation:

The Harbor Commission is presented as an enterprise fund. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when the liability is incurred or an economic asset is used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

SEBEWAING HARBOR COMMISSION

NOTES TO THE FINANCIAL STATEMENTS MARCH 31, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Measurement Focus, Basis of Accounting and Basis of Presentation: (Continued)

The Commission follows all pronouncements of the Governmental Accounting Standards Board, and has elected not to follow Financial Accounting Standards Board pronouncements issued after November 30, 1989.

Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - CASH AND DEPOSITS:

Deposits are carried at cost. Michigan Compiled Laws, Section 129.91, as amended by Public Act 196 of 1997, authorizes the Commission Treasurer to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loans associations; bonds, securities, and direct obligations of the United States, or any agency or instrumentality of the United States in which the principal and interest is fully guaranteed by the United States, including securities issued or guaranteed by the Government National Mortgage Association; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan; and commercial paper rated by two standard rating agencies within the two highest classifications, which matures not more than 270 days after the date of purchase. Attorney General's Opinion Number 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan. The Commission deposits and investments are in accordance with statutory authority.

The carrying amount of cash and deposits with financial institutions of the Sebewaing Harbor Commission amounted to \$6,301 at March 31, 2008. The bank balance as of the same date was \$6,595. Deposits with financial institutions are insured by the FDIC. The Commission's deposits and investments are within the authorization as set forth by the Sebewaing Harbor Commission.

NOTE 3 - CHANGES IN CAPITAL ASSETS:

Capital assets of the Harbor Commission consisted of the following:

| | <u>April 1, 2007</u> | <u>Additions</u> | <u>March 31, 2008</u> |
|------|-----------------------------|-------------------------|------------------------------|
| Land | \$103,340 | | \$103,340 |

(Continued)

SEBEWAING HARBOR COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2008

NOTE 4 – OTHER ASSETS:

During the year ended March 31, 2004, the Sebewaing Harbor Commission purchased the marina operating lease from the private operator for \$75,100. The cost of the operating lease is being amortized over the remaining term of the lease which is 17 years. For the fiscal year ended March 31, 2008, amortization amounted to \$4,417 and accumulated amortization totaled \$17,668.

NOTE 5 – RISK MANAGEMENT:

General Liability:

Sebewaing Harbor Commission participates in the Michigan Township Participating Plan, which is a public entity risk pool, for the coverage of significant losses due to its general liability. The participation in the pool constitutes transfer of the risk for significant losses to the pool with a coverage limit of \$505,620 for real and personal losses and \$2 million for liability losses. Sebewaing Harbor Commission is required to pay annual premiums to the Michigan Township Participating Plan for the liability coverage. No supplemental premium assessment is required by the Michigan Township Participating Plan. There have been no significant reductions in insurance coverage and settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

Worker's Compensation:

During the year ended March 31, 2008, the Harbor Commission purchased commercial insurance to protect against losses related to its worker's compensation claims.

Employee Health Insurance:

Sebewaing Harbor Commission does not provide health insurance benefits.

**To Sebewaing Harbor Commission
Sebewaing, Michigan**

In planning and performing our audit of the financial statements of the business-type activities of the Sebewaing Harbor Commission as of and for the year ended March 31, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Sebewaing Harbor Commission's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the governmental unit's internal control. Accordingly, we do not express an opinion on the effectiveness of the governmental unit's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

Due to the limited number of office personnel, all critical duties are performed by one person. Presently, this person prepares and makes deposits, prepares and signs checks, reconciles bank accounts, performs all payroll duties as well as maintains the general ledger. To the extent possible, we recommend that duties be segregated to serve as a check and balance on the employee's integrity and to maintain the best control system possible.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiencies constitute material weaknesses:

Page 2

Sebewaing Harbor Commission

The personnel of the Sebewaing Harbor Commission have the capability to perform monthly internal accounting functions and reports as required by management. The personnel of the Sebewaing Harbor Commission do not have the internal expertise to prepare the annual financial statements and related footnotes in accordance with the method of accounting utilized in the external audit report. We believe this meets the definition of a material weakness under Statement of Auditing Standard #112.

This communication is intended solely for the information and use of management, the Sebewaing Harbor Commission, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Nietzke & Faupel, P.C.

Nietzke & Faupel, P.C.
Pigeon, Michigan

July 21, 2008